

HUDSON POPE PLLC

CERTIFIED PUBLIC ACCOUNTANT

310 New Street, New Bern, NC 28560

252-635-1330 Fax: 252-634-2772

Email: pam.pope@hudsonpoppe.com; oscara.stevick@hudsonpoppe.com; parker.odaniel@hudsonpoppe.com

Tax Season 2016

The deadline for individual income tax returns this year is April 15th. We have recently completed corporate returns for the March 15th deadline and continue to process individual returns. We would like to remind those of you who have not yet gathered your 2015 tax information, you may want to consider having us prepare an extension for you which would extend the filing time until October 17th. As long as the tax you owe for the year is paid with the extension, filing for the extension does not have any negative ramifications.

The North Carolina legislature approved additional sales taxes to take effect March 1, 2016. These new sales taxes add to the cost of services ranging from car repairs to appliance

REMINDER:

Individual Estimated Income Tax Payments are due by April 15, 2016.

installations. Since several of our clients are affected by this legislation and many have had questions concerning the ramifications for their businesses, we will devote this newsletter to the highlights of this legislation.

In addition, the IRS has issued 2016 and revised 2015 vehicle depreciation limits which are included at the end of this newsletter.

CHANGES TO NORTH CAROLINA SALES TAX

The 2015 Session of the General Assembly enacted several changes to the taxes administered by the Sales and Use Tax Division. The changes that went into effect on March 1, 2016 add to the cost of services ranging from car repairs to appliance installations.

Effective March 1, 2016. Repair, Maintenance and Installation Services. The 4.75% sales and use tax applies to the sales price of or the gross receipts derived from repair, maintenance and installation services which includes the following activities: (a) to keep or attempt to keep personal property or a motor vehicle in working order to avoid breakdown and prevent repairs; (b) to calibrate, restore, or attempt to calibrate or restore personal property or a motor vehicle to proper working order or good condition. (c) To troubleshoot, identify, or attempt to identify the source of a problem for the purpose of

determining what is need to restore personal property or a motor vehicle to proper working order or good condition. (d) To install or apply personal property except personal property installed or applied by a real property contractor pursuant to a real property contract. **Shoe Repair Services.** The sales price of or the gross receipts derived from charges for labor and services performed in connection with shoe repair are subject to the 4.75% sales tax. Prior to March 1, 2016 if no segregation is made between the charges for the materials furnished and the charges for labor and services performed in connection with the repair work, a shoe repairman is allowed to remit tax on 40% of the combined price or charge made for the materials, labor, and services as representing the retail charge for the materials furnished by the shoe repairman. The same will apply to watch, clock and jewelry repair and to tire recapping or retreading repair services except that the

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watch, clock and jewelry repairman is allowed to remit tax on 10% of the combined price or charge made for the materials, labor, and services as representing the retail charge for the materials furnished by the repairman.

Repair, Maintenance and Installation Services Exemptions.

(a) Repair, maintenance and installation services provided for an item, other than a motor vehicle, for which a service contract on the item is exempt from tax. (b) Repair, maintenance and installation services purchased for resale are exempt from sales tax. (c) an item or repair, maintenance and installation service used to maintain or repair tangible personal property pursuant to a service contract if the purchaser of the contract is not charged for the item or services. This exemption does not apply to an item or repair, maintenance and installation service provided for a motor vehicle pursuant to a service contract exempt from tax unless the purchaser of the contract is not charged for the item or services. For purposes of this exemption, the term "item" does not include a tool, equipment, supply, or similarly tangible personal property used to complete the maintenance or repair and that is not deemed to be a component or repair part of the tangible personal property for which a service contract is sold to a purchaser.

Real Property Contractors are also affected by this tax directive, as "they are now liable for payment of sales and use tax on taxable repair, maintenance and installation services purchased to fulfill a real property contract". The NC Department of Revenue defines a "Real Property Contractor" as a person not engaged in **retail trade** (see below). The Department has been very vague in this area of exactly what changes are taking place for contractors, but they do say they will be releasing more information in the future.

Retail Trade. The new statutes define "retail trade" as a "trade in which the majority of revenue is from retailing tangible personal property, digital property or services to consumers. The term includes activities of a person buying goods for resale, and rendering services incidental to the sale of merchandise. The term typically includes maintaining an inventory and may include the provision of repair, maintenance and installation services. Not all activities provided in this subdivision are required for a trade to be considered retail trade."

To review the current overview of the legislative changes, please visit

www.dor.state.nc.us/downloads/e505_10-15.pdf.

2016 and Revised 2015 Vehicle Depreciation Limits

The IRS on April 1, 2016, issued guidance providing revised limits for the amount of depreciation taxpayers can take for the first year they use a passenger automobile (including a truck or van) for business in 2015 and the new depreciation limits for 2016. The guidance also includes the lease inclusion amounts that vehicle lessees must include in income for 2016.

The revisions apply to passenger vehicles that were placed in service during 2015 and to which 50% bonus depreciation applies. Accordingly, the first-year depreciation limitation for 2015 is increased by \$8,000. For passenger automobiles (other than trucks or vans) placed in service during calendar 2015 to which 50% bonus depreciation applies, the depreciation limit is \$11,160 for the first year. The corresponding figure for trucks and vans is \$11,460. For passenger automobiles

placed in service during calendar 2016 to which bonus depreciation does not apply, the depreciation limit is \$3,160 for the first tax year; \$5,100 for the second year; \$3,050 for the third year; and \$1,875 for each successive year. For passenger automobiles (other than trucks or vans) placed in service during calendar 2016 to which bonus depreciation applies, the first year limit is \$11,160; the limits for the other years are the same.

For trucks and vans to which bonus depreciation does not apply, the limit is \$3,560 for the first tax year; \$5,700 for the second tax year; \$3,350 for the third tax year; and \$2,075 for each successive tax year. For trucks and vans to which bonus depreciation applies, the first year limit is \$11,560; the limits for the other years are the same.

Company Name
Street Address
City, ST ZIP Code



Customer Name
Street Address
City, ST ZIP Code